

Washington State Board of Accountancy

Online payments
Of CPA License Renewal

Economic Feasibility Study
Business Case

April 01, 2008

Table of Contents:

Section 1 Analysis of the Current Business Environment

Section 2 Assumptions

Section 3 Alternatives Considered

Section 4 Summary of proposed application

Section 5 Perspectives

Agency

Other Agencies

Customer

Section 6 Intangible Benefits

Section 7 Attachments

DIS Quote

SACS

Agency Supporting Documentation

Business Case

1. Analysis of the current business environment

a) Our customers

The customers that will benefit from the proposed services, Bankcard and ACH enabled e-commerce, are Washington State individually licensed CPAs.

b) Nature of our business

Washington State Board of Accountancy (WBOA) regulates and licenses Washington State individual CPAs and CPA firms.

This initiative will allow individual licensees a secure method to renew their CPA license and pay fees over the Internet, adding convenience, saving time and money.

c) Current payment process

WBOA staff:

- The first week of every January WBOA staff prepare and mail a renewal notice to licensees that have licenses expiring in June of that year
 - CPA licensees are on a three year cycle
- Licensees complete the renewal form and return, via mail, to the Office of Financial Management (OFM) Small Agency Client Services (SACS) with payment

SACS staff:

- Payment and documentation is received
- Process and manually prepare daily cash receipt batches
- Manually prepare a daily deposit form for the Treasury office
 - Deliver via courier
- Record the daily cash receipt batch information into the states shared accounting system, AFRS
- Forward all original documentation and the daily cash receipt batch form to WBOA

WBOA staff:

- Original client documentation (mostly returned renewal forms) and cash receipt batch forms received by WBOA.
- Using a barcode reader, WBOA staff manually enter client and payment information into their agency software application, CPAWare; GUI interface between the WBOA users and our data store housing CPA, firm, and violation information
- Staff receive and audit A8 cash receipts on a daily basis

- On a monthly basis CPAWare revenue reports and AFRS systems reports are audited by the agency's Deputy Director

d) Volume and timing of transaction

Licenses are renewed from January to June on a three year cycle based on the year the license was issued.

Individual renewal volume estimates shown for the next three year cycle

Year	Number	*Dollars
2009	6,330	\$1,455,900
2010	6,301	\$1,449,230
2011	1,059	\$243,570
Three Year Cycle	13,690	\$3,148,700

*\$230.00 per license renewal

2. Assumptions

a) Customers expect us to provide convenient services with current technology (electronic processes and Bankcard and ACH payment).

The general population, including our CPA professional license holders, have increasing expectations for their interactions with government. Progressive government agencies are living up to this expectation by expanding the types and quality of their online services and improving their content daily in an effort to achieve the highest measure of user satisfaction, administrative efficiency and cost effectiveness.

In a report released in Washington DC July 25, 2000, "Bench marking the e-Government Revolution: Year 2000 report on Citizens and Business Demand," a survey by an independent firm found that:

- Forty-three percent of those polled wanted to conduct transactions related to professional licenses on-line; and
- Thirty-six percent of the businesses wanted to use the Web to apply for business permits.

Note: We expect the results of a more recent survey would be much higher.

Another report <http://www.ecommerce-guide.com/news/news/article.php/3598281>, *2006 Online Retail Sales to Hit \$100 Billion*, issued in 2006 by Devin Comiskey predicts e-commerce in the United States will surpass \$144 billion in 2010.

In 2006 WBOA conducted a survey of 1,178 current licensee holders to determine their interest in using the Internet as a means of renewing and filing for a license online. Sixty-five percent responded with a yes, they would like to use online renewal. Here are some of the responses directly from our customers:

Online renewal would be great!!

*Online renewal should be an option, but not the only method.
I was looking for an on line renewal process.
Make it an online process that accepts credit cards.*

WBOA operation staff receive several calls and emails a day, during the renewal period, from individual CPAs and firm owners requesting online payment options.

We know that the majority of our licensees are capable of using this service, i.e. they have a bankcard or checking account, have adequate skill and access to the internet. Our customers have a high and progressive expectation; State agencies including small agencies like WBOA need to respond accordingly.

b) As shown in the charts below: Implementation of online forms and providing our customers a means for paying online will save WBOA \$191,511 in transaction cost (SACS fees, postage and WBOA staff processing time) over a five year time period.

Based on statistics from other state boards and Washington based government entities offering the same type of services, we expect that at least seventy-five percent of all eligible licensees will use the Internet payment option the first year (2009), ninety percent the second year (2010), and ninety-eight percent by 2011.

Based on research conducted with other United States' Board of Accountancy agencies, we found the use of online license renewal usage as high as ninety-four percent and as low as eighteen percent the first year of implementation. States found higher aggression and education of the offered internet service had a direct impact on their success ratio. North Carolina was one of the states that took an aggressive approach reaching ninety-four percent success rate their first year. The state of Idaho took a less aggressive approach the first year, resulting in an eighteen percent usage. Idaho reached ninety-eight percent user participation in their third year; sending only a reminder to the CPAs in place of the actual renewal form.

Our prediction is that WBOA will take a moderately aggressive approach the first year. We plan to send postcards with online directions. The licensee will be asked to fill out and submit the form and payment via the Web. We will, however, give them the option of printing the form and mailing it in with payment. We expect at least seventy-five percent of our individual CPAs to choose online renewal and payment. Of the seventy-five percent we expect fifty percent will pay via ACH leaving fifty percent to pay via Bankcard. Our goal and push will be ACH as the transaction fee is \$.25 vs. \$5.18 for bankcard.

Current Cost per One Transaction:

Transaction	Agency Performing the Work	Processing Time per Transaction	Cost for Processing (per transaction)	Notes
Renewal Form	WBOA	6 min	\$2.76	Opening, logging, data entry, address changes, checking work, etc.
Transactions	SACs	2.2 min	*\$8.76	Any form coming in for WBOA that has money.
Total		8.2	\$11.52	

*based on total amount of transaction and dollars billed by SACs in 2007 ([see attached SACS analysis](#)).

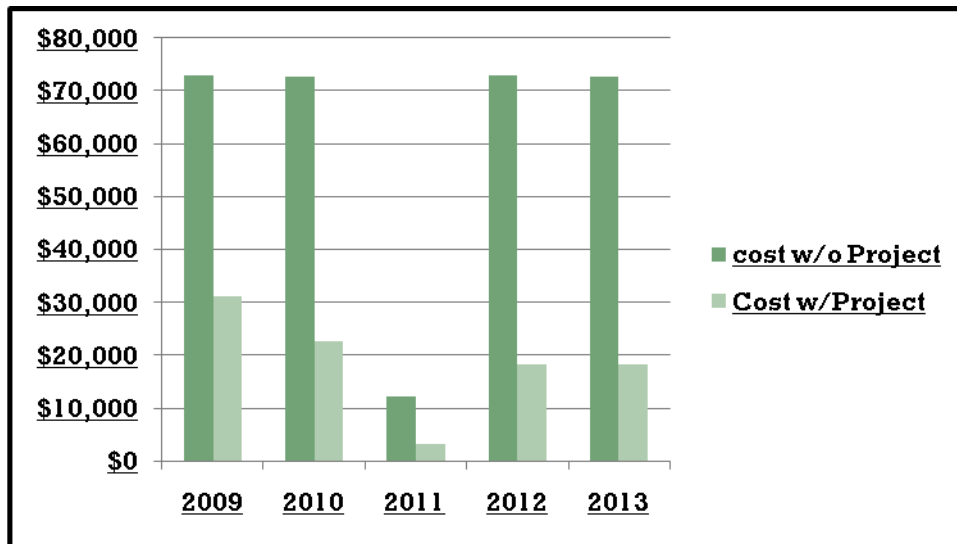
Five Year Transaction Cost Savings Summary:

Year	Total Trans	On-line Trans	Paper Trans	*Cost of Online Fees	**Cost of Paper Fees	Cost W/O Project	Cost W/Project	Total Savings W/Project
2009	6330	4748	1583	\$12,889.46	\$18,230.40	\$72,922	\$31,120	\$41,801.74
2010	6301	5671	630	\$15,396.49	\$7,258.75	\$72,588	\$22,655	\$49,932.27
2011	1,059	1038	21	\$2,817.68	\$243.99	\$12,200	\$3,062	\$9,138.01
2012	6,330	6203	127	\$16,842.23	\$1,458.43	\$72,922	\$18,301	\$54,620.94
2013	6,301	6175	126	\$16,765.07	\$1,451.75	\$72,588	\$18,217	\$54,370.70
						\$303,218	\$93,354	\$209,863.65

*Online fee calculation = (On-line Trans/2 x \$5.18) + (On-line Trans/2 x \$0.25)

**Cost of paper trans = (Paper Trans X \$11.52) WBOA and SACS estimated processing fees

Note: One-time development and on-going maintenance cost for the project were not included in this summary. One-time cost is estimated at \$140,000; system maintenance is estimated at \$ 1,000 a year \$5,000 over life of software; five years. No hardware cost.



- c) **Because both individual licensees and business owners will be using our website to renew and make renewal payments we will accept both ACH and bankcards.**

Based on research done by WBOA we estimate fifty-percent of our users will use bankcards and fifty-percent will pay via ACH or check. We used this percentage to estimate our total transaction savings to cost.

Because bankcard (dept and credit) acceptance is the primary payment method today over the Internet we know it will be a popular option for our individual licenses and we must build an interface to accept these types of payments. However, an ACH transaction cost almost five dollars less than a bankcard transaction. WBOA plans to absorb the bankcard fees; ACH fees will be absorbed by Treasury.

Because bankcard fees are so much more expensive than ACH we have asked the programming team at DIS to program our payment application in such a way that it encourages ACH payment. We plan to expand that encouragement by allowing multiple payments, currently at an estimated thirty eight percent of our total renewal population, only the ACH option. They will not have the option of renewing multiple CPA licenses via the internet using a bankcard.

Although accepting bankcards is expensive, not accepting them makes license renewal via the Internet not as viable an option. Some of our customers will not be willing to engage in payment option, such as ACH, that is more complex and time consuming. As fewer people used the service, the state's investment-to-benefit ratio would be significantly reduced. Moreover, the perception of state government would be negative, which is not an acceptable outcome of the state's e-commerce efforts.

3. Alternatives Considered

a) Other approaches, payment methodologies were considered

Other options, such as filing electronically with a paper payment, are not being considered because the cost of processing and the added complexity of matching payments to filings would outweigh the benefits to the few customers that would need this ability. It would also eliminate the benefit to the customer of expedited service. One of the greatest benefits of electronic transfer and renewal is the speed at which it can be accomplished. If bankcard payment and ACH is not approved, the benefit to the customer is reduced since the transfer and renewal cannot be approved until payment arrives via a non-automated method.

b) The consequence if there were no change made to the payment methodology currently being used

Customers will be left with only the out-dated option of filing on paper and paying via check or cash. WBOA will not gain efficiencies gained through the proposed solution. The numbers above show a significant reduction in transaction processing cost. Nor will we have the opportunity to build a platform for additional online payment transactions, such as initial license.

4. Summary of proposed application

a) Benefits, costs and proposed funding.

- Detail Analytical Worksheets and Supporting Documentation are attached.

With the implementation of ACH and bankcard payment options WBOA will experience a sixty-nine percent reduction in transaction processing costs over the next five years. The impact on the state as a whole will be further enhanced by the benefits for our licensees' time and postage savings, resulting in a five-year assessment net benefit of approximately \$15,000. The following pages describe the various cost benefit perspectives.

5. Perspectives

a) Agency Perspective

Funding

WBOA's license fees are deposited into a restricted account. Expenditures are appropriated by the Legislature. The overall reduction in costs will not materially impact our budget.

Revenue

It is not expected that the Internet ACH and bankcard payment option will increase or decrease revenue. Licensing fees are set by Board rule.

New/Increase Costs

Agency costs for providing enhanced services to licensees are offset by savings and long-term efficiencies. While there may be some additional costs for reconciling and data entry of revenue, initial training for staff and licensees, or assisting the licensees by phone, we anticipate these costs to be minimal and also offset by the overall savings. WBOA will be sustaining the ongoing costs of bankcard fees. Treasury will sustain the ongoing cost of ACH fees.

Cost Avoidance/Reduction

Key areas of reduced costs are reduced data entry, reduced scanning time, and reduced mail handling, amounting to over \$68,948.53 over the five-year period. While these benefits are quantified, they are not hard dollar savings. They do however reflect our ability to redirect staff time to enhanced customer service, administrative, and enforcement activities. In practical terms, staff will have a few more minutes each day, which will be directed at more customer service functions. It will not result in the reduction in an FTE.

b) Other state agencies perspective

SACS will see a drastic reduction, seventy-five to ninety-eight percent, in the number of manual paper renewal forms processed; allowing for a reduction of seventy-five to ninety-eight percent in fees charged to WBOA for transaction processing.

DIS – They will see a one-time increase in revenue of \$140,000 for the programming of our on-line payment option. They will see a very small amount in yearly estimated revenue as we do not expect major changes in the programming of our on-line payment system. No increase in Access WA fee as it is considered an allocated fee.

Treasury – will incur a small cost for our ACH transaction fees; \$0.25 per transaction.

c) Customer Perspective

The primary benefits of offering Internet transaction and bankcard payment will accrue to customers as decreased costs. Key areas of reduced costs are postage cost savings amounting to \$15,492.75 over the five-year period, summarized below.

Time cost savings

The time and savings to each customer will be minimal; however the added convenience and ease of access will be a great benefit.

Reduced postage costs

All licensees will save on postage costs. Because licensees will be completing their renewals online, they won't need to return the form or check by mail. Over the five-year period, savings for our licensee are approximately \$20,974.81.

Other savings/benefits

In addition to the savings noted above, licensees will benefit from:

- *Quicker completion time:* Because customers will complete their renewal form online, they avoid delays in processing from having to mail materials to WBOA. Additionally, immediate transaction completion provides licensees with the ability to renew quickly in order to avoid having their license lapse for late submittal.
- *Accurate payment:* Moreover, on-line checking of math assures that customers can only submit the correct payment amount, eliminating delays from inaccurate payments.
- *Convenience:* Electronic transfer, renewal and Internet payment will give customers the option of completing their renewals 24hours/seven days a week and the ability to use a charge card.

6. Intangible Benefits

In addition to the savings noted above, this initiative will provide the following benefits:

- Enhanced perception of Washington as a business-friendly, technologically savvy state with a commitment to reducing the burden of complying with state laws on business and citizens.
- Alignment and support of Governor's priority of "Restoring Trust in Government" by making state government credible and trustworthy in the eyes of residents through innovation, effectiveness, efficiency and customer service. The Internet option furthers this goal by providing roughly sixteen thousand licensed CPAs with access to "24 x 7" renewal of CPA licenses over a complete three year cycle.
- Reduced agency cost gained in the reduction of cash transaction handled by SACS.
- Reduced use of paper resources as customers submit electronic forms and pay online.

7. Attachments

a) Programming Quote



Board of
Accountancy Estimate

b) SACS:



07-09 ACCT 165
Fee Model Assumption



Cash Receipting
Process Time Assump



RE SACS Fee Model
- Washington State B

SAC's Cash Receipting Process Time:

Front Desk:

- a. Opens and date stamps the applications received in the mail.
- b. Attaches the checks to the applications.
- c. Separates the applications into two piles -- one with checks and one with out checks.
- d. Puts into the agency's folder.
- e. Notifies Coral that the applications and checks are ready for pickup.

Time Assumptions:

Two people normally opening the mail; on busy days, three people open the mail; average time 30 minutes to two hours. Their time is charged to another budget unit, and not included in the SACS fees.

Coral:

- a. Takes the applications without the checks.
- b. Starts the log received from the Board.

Shauna:

- a. Takes the applications with the checks.
- b. Inputs the name of applicant, name on check, check number, check amount into the log.
- c. Sorts the applications by amount and in alphabetical order.
- d. Subtotals for each amount.

- e. Determines the grand total.
- d. Gives checks and applications to Coral with the log.

Coral:

- a. Removes checks.
- b. Verifies the date, check amount, confirms that the written and numerical values of the checks match, and signature.
- c. Writes the amount of the check on the application.
- d. Sorts by form type, i.e., renewals, firms, new applicants, etc.
- e. Runs an adding machine tape for each group, i.e., renewals, firms, new applicants, etc.
- f. Date stamps the application and the adding machine tape.
- g. Runs a cumulative adding machine tape on the checks for all groups.
- h. Reconciles to the log prepared by Shauna.
- i. Prepares the deposit slip, runs an adding machine tape on checks, and creates an A-8.

Time Assumptions:

Coral can process 50 applications per hour. Shauna can process 100 applications per hour. In 2006, SACS processed 7,100 applications. Coral spent 142 hours processing applications in 2006. (7,100/50/hr) Shauna spent 71 hours processing applications in 2006. (7,100/100/hr.) In 2007, processed 7,325 applications. Coral spent 146.50 hours processing applications in 2007. Shauna spent 73.25 hours processing applications in 2007. These are under optimal conditions. If there are any errors, the time increases significantly. There have been some days when staff have spent up to five hours processing the applications.

Susan:

- a. Verifies the deposit ticket to the log and the adding machine tape and the A-8.
- b. Approves the A-8.
- c. Takes the deposit to the front desk for delivery to STO and the Board.

Time Assumptions: Susan spends 30 minutes per day on these tasks. There are 260 work days per year. Susan spent 78 hours performing these tasks. (260 x .5)

Courier:

- a. Takes A-8 to STO.
- b. Takes applications to the Board.

Time Assumptions:

The courier spends 25-30 minutes per day performing these tasks. There are 260 work days per year. The courier spent 78 hours performing these tasks. The courier is charged to another budget unit, and not included in the SACS fees.

SAC's Fee Model Assumptions:

The rate was always divided into three components – the number of employees we pay at each agency, the number of payable and receivable transactions we process, and the complexity of the agency. I changed the complexity factor for the rates to a methodology that allows everyone, including the auditors, to validate the numbers. The complexity factor now has 21 components that count things such as the number of salaried, hourly, union, and commission employees, number of appropriations, funds, provisos, programs, and program indices, biennial budget size, whether SACS does special billings for the agency or not, and unanticipated receipts packages submitted. Each agency is ranked as a percentage of the whole. If an agency does not utilize the services, then I input zeroes.

The costs for the staff providing the service are direct charged to that component. The costs for me and the administrative staff are allocated to each of the components based on the number of FTEs in each unit.

I allocate the costs for payroll staff to the rate component that counts the number of employees we pay at the agency. For payroll, I charge 100% of three payroll supporting analysts, 10% of the lead analysts, 15% of the assistant manager, and 31% of the manager and administrative assistant's time. At the Board of Accountancy, (ACCT) I allocated 3.59%, or \$24,201, of our costs to payroll.

I allocate the costs for the supporting analysts, i.e., Coral, based on the number of transactions we processed. For the transactions, I charge 100% of four accounting supporting analysts, 10% of the three lead analysts, 15% of the assistant manager, and 41% of the manager and administrative assistant's time. We processed 818 payables transactions and 7100 receivables transactions which represented 19.64% of our total costs. I only charged 8.00% or \$69,342 to ACCT. This represented the 818 payables transactions and 2,000 receivables transactions.

I allocate the costs for the lead analysts, i.e., Susan, primarily to the complexity factor with a percentage going to the other two components because of the personnel work they do, and the review and releasing of batches for the payable and receivable transactions they do. For complexity, I charge 80% of the lead analysts, 70% of the assistant manager who also had lead analyst responsibilities, and 28% of the manager and administrative assistant's time. The complexity rating for ACCT was 21, which is 2.05% or \$ 14,673.

c) Agency supporting documentation

Sandy, after a closer review of your calculation assumptions, I figured out what's missing. The calculations do not take into consideration the work that the lead analyst, i.e., Susan, did that is not related to transactions. If you look at the sheet I sent with the rate explanation, you will see that Susan spent 80% of her time on

other activities. I think you should divide the transactions into the transaction number, i.e., \$69,342/7918, which is \$8.76 per transaction. I'm not sure if this is still the most accurate because the transaction rate includes non-transaction processing such as general ledger cleanup, monthly accruals, and CAFR activities performed by the supporting analysts that are not directly tied to processing a transaction. Please accept my apologies for the delay in responding to your request. The model is far from perfect, but is something the auditor and I could agree on to use. yrwilson

From: Wilson, Yolanda
Sent: Wednesday, January 30, 2008 3:12 PM
To: 'Sandy Shoemaker'
Cc: Zolman, Lisa
Subject: RE: SACS Fee Model - Washington State Board of Accountancy

Sandy, I follow the math logic, but it doesn't seem to be right. I'm in the middle of several fires right now. When do you need an answer from me? yrwilson

From: Sandy Shoemaker [mailto:SandyS@cpaboard.wa.gov]
Sent: Wednesday, January 30, 2008 2:23 PM
To: Wilson, Yolanda
Cc: Zolman, Lisa
Subject: SACS Fee Model - Washington State Board of Accountancy

Yolanda:

Good Afternoon! Hope you are faring well in all this icky weather !!

Sorry to bother you again, but I am helping Lisa draft a feasibility study for OFM for our new on-line renewal process that we hope to implement by next year. We need the per transaction cost to use in the feasibility study

I have reviewed the Fee Model Assumptions document you sent over to Lisa (see attached) and I have a question about the per transaction cost SACS is incurring.

There are 3 components to your costs:

Payroll	\$24,201
Transactions(818 + 7100)	\$69,342
Complexity Factor	\$14,673
Total	\$108,216

If I wanted to look at just the "Payroll" costs vs the "Transactions" costs, I am guessing I would want to apply the complexity factor based on percentage back to the other categories:

Category	Cost + Complexity Allocation	Total Cost
----------	------------------------------	------------

Payroll	\$24,201 + \$3,815 (26%)	\$28,016
Transactions (818 + 7100)	\$69,342 + \$10,858 (74%)	\$80,200

That would mean the cost per each “Transaction” item would be: **\$80,200/7,918 = \$10.13 per transaction**

Does this look right to you? I just want to be sure I use the right number !!!

Thanks so much,
Sandy Shoemaker
Direct Line: (360) 664-9192

Attach docs here